



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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Testimony of the Connecticut Insurance Department

Before the
Insurance and Real Estate Committee

Tuesday, February 1, 2011

House Bill 6238 – An Act Concerning Replacement Cost coverage Under Homeowners Insurance and Commercial Risk Policies

The Insurance Department submits the following testimony regarding House Bill 6238 – An Act Concerning Replacement Coverage Under Homeowners and Commercial Risk Policies. Respectfully, the Department would like the Committee to consider a few technical issues that could have the unintended consequence of eliminating several important consumer protections.

First, Section 1, subsection (b), appears to be a change in the industry standard for determining replacement cost of a home. For example, the meaning of the terms "reasonable cost value" and "appropriate amount of coverage" are ambiguous and it is unclear who will make the determination as to what is "reasonable" and "appropriate." It is equally unclear who is required to make that determination and when the determination is to be made. The Department believes that consumers are better served if there is a clear understanding of how the replacement cost is determined.

Also, under subsection (c), the Department would like to note that changing the current definition of "actual cash value" may unintentionally inflate the actual cash value, by prohibiting an insurer from considering the age and obsolescence of the property. This could mean higher premiums for consumers.

In addition, the Department respectfully notes that by removing the term "replacement cost" and replacing it with "cost to rebuild," very important consumer protections may be undermined. The current standard for replacement cost (C.G.S. sec. 38a-307) requires that a home be rebuilt with materials of like kind and quality. By changing the definition, it no longer requires replacement with materials of like kind and quality, which is not in the best interest of consumers.

Thank you for allowing the Department the opportunity to offer comments to this bill. As always, we are available to answer any questions the Committee has.